Fund Manager Commentary

August 2017

BT Investment Management

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BT Wholesale Core Australian Share Fund

Market review

The S&P/ASX 300 Accumulation Index traded sideways again over the month of August, achieving a marginal gain of 0.7% against the backdrop of a reporting season with mixed results. Corporate earnings were strong for FY17, with key support stemming from Resources; whereas Industrials profit growth remained subdued at 4% due to a combination of weak headline growth and rising input costs. Free cash flow remained favourable while improvements in payout ratios and company balance sheets were also evident. Taken alongside existing capital discipline within the market, the environment indicates a potential for further capital returns to shareholders down the track.

Turning to sector specifics, only three of the 11 GICS sectors, **Financials (-2.1%), Consumer Discretionary (-1.5%)** and **Telecoms (-7.2%)** posted negative returns, whereas the rest finished the period in positive territory. The two index heavyweight sectors, **Financials** and **Materials (+4.5%)** went in completely different directions in August, somewhat offsetting each other's contribution to/detraction from the Index's headline performance. Within the former, the "Big Four" all retraced gains with the exception of **NAB (NAB, +0.8%)**. Quarterly reports delivered little in terms of surprises and new information on the majors, however there was a general sense of incrementally improving margins in the sector across the board, while capital is no longer a headwind. However, this was overshadowed by AUSTRAC's allegation and subsequent civil penalty proceedings brought against **Commonwealth Bank (CBA, -6.9%)** around the bank's potential violation of anti-money laundering practices. The announcement of APRA's prudential inquiry and the departure of the CEO before the end of FY18 also weighed on the country's biggest bank and created a drag on the sector. Turning to Materials, the situation was more upbeat, thanks to price recovery in the major commodities on the back of a resilient Chinese economy which provided support to the miners' bottom line. In particular, key iron ore players, **BHP (BHP, +5.9%)**, **Rio Tinto (RIO, +5.3%)** and **Fortescue Metals Group (FMG, +4.7%)** all finished the period higher. BHP's decision to exit the US onshore oil business was also welcomed by investors, which had been singled out recently by activist hedge fund, Elliott Management.

Other noteworthy sectors which finished the month higher are **Consumer Staples (+5.2%)** and **Industrials (+4.6%)**, being the second and third largest contributors to the index's performance following Materials. Solid performance from the sector heavyweight, **Wesfarmers (WES, 7.7%),** did most of the heavy lifting for the Consumer Staples sector as its FY17 results were well received by the market. Underlying net profit after tax was 22% higher than the previous corresponding period, while sales were 3.7% higher. A reporting season-driven euphoria was also evident within the Industrials sector, with top contributors all benefiting from a solid second-half result. **Sydney Airport (SYD)** finished the month 10% higher, with stronger top-line growth coming from the retail side of the business. The airport operator also announced an upgrade to its payout guidance which was well received by the market. The perception of a rising bond yield which has been a headwind to the bond-sensitive stocks also abated somewhat towards the latter part of the month, and was also beneficial for SYD's peer, **Transurban (TCL, +6.6%)**. Last but not least, Qantas remained a standout within the Transportation sector over the month, posting another gain of 7.5%. A major turnaround in the national airliner's domestic business has helped QAN's share price to deliver an 80% return over the past twelve months.

Finally, on macro developments, the risk appetite of global investors eased to some extent in August as several geopolitical issues resurfaced. Chief among these were the escalating tensions between North Korea and the US. The latter also contended with a fast-approaching deadline to avert a government shutdown. Earlier in the month, traders eagerly awaited speeches from global central bank chiefs at the annual Jackson Hole Symposium. Ultimately though, few hints on near term policy decisions were delivered. At the same time, traders' expectations shifted towards a more dovish bias for the Fed. In turn, the market-implied probability of a December rate hike was dialled back. Within the domestic market, the Reserve Bank of Australia once again left rates on hold at 1.5%, as widely expected. Governor Lowe retained a neutral tone in his statement, which left market expectations for future rate movements unchanged. The market is presently anticipating a full hike by November 2018. The Board continues to balance soft wage growth and broader inflation with encouraging signs of improving economic activity. Data during August echoed this issue. Quarterly wage growth data revealed a sluggish 1.9% year-on-year increase. The monthly jobs report was more constructive, with 28,000 jobs added, although this was heavily skewed to part-time positions. Beyond the labour market, business conditions and confidence gauges soared and retail sales rose by a healthy 0.3%. In contrast, consumer confidence and building approvals slipped.

Portfolio performance

The BT Wholesale Core Australian Share Fund returned 0.89% (post-fee, pre-tax) in August 2017, outperforming its benchmark by 0.14%.

Contributors

Overweight Qantas

Qantas (QAN, +7.5%) rebounded strongly over August, recouping all of its losses from the previous month following a strong reporting season. The net profit after tax of $1.4 billion was higher than the top of the guidance range and the second-highest in the national airliner's history. The big turnaround in its domestic business was the key driver behind the solid numbers, with the help of the company's $2 billion cost-out program which returned the business to profit just two years ago. There has also been some evident easing of the capacity war for Qantas' long-battered international business, which supported investor sentiment. The airline operator remains one of our top positions within the portfolio and we continue to maintain our conviction in the stock despite its recent rally. Capacity growth within its domestic franchise demonstrates the strong discipline in place and is a key factor driving the share price. Valuation metrics are also attractive when compared to global peers. Last but not least, the strong free cash flow that Qantas has generated is expected to allow the company to reduce debt and deliver attractive returns to shareholders over coming years.

Overweight Caltex

Caltex's (CTX, +7.2%) share price progressed in a positive trend over the month, regaining the lost ground over the previous two months. The fuel supplier/convenience retailer had suffered from poor sentiment since late last year when Woolworths announced the (pending) sale of its fuel business to Caltex's key competitor, BP, including 527 fuel convenience sites which Caltex currently supplies fuel to. While the market has been wary of the impact this sale brings on Caltex's top-line outlook, results from the latest reporting season have been encouraging. The company demonstrated a solid refining margin alongside more certainties around the company's plan to replace the revenues that will be ceded from the BP/Woolworths deal. Cost reduction initiatives have also been successfully delivered to date. In our view, we believe the market has now largely agreed on and priced-in the revenue impact (estimates of which have been lifted since announcement of the deal) on the company from this pending deal, and CTX's convenience store strategy is set to bring more valuation upside. As such, it remains a key position for our portfolio.

Underweight Commonwealth Bank

In August, the eyes of all legal enforcers' within the Financials sector focused on Australian's largest bank, **Commonwealth Bank (CBA, -6.9%).** Australia's financial intelligence and regulatory agency, AUSTRAC, initiated civil penalty proceedings against CBA for the bank's systemic non-compliance with the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (AML/CTF Act). AUSTRAC's allegations included over 53,700 contraventions by CBA and were followed by ASIC's formal investigation into CBA's board disclosure compliance. APRA also announced an independent prudential inquiry into CBA's governance, culture and accountability frameworks. Probes by regulators have never been well received by investors, and these saw CBA drop by 6.9% over the month, wiping out the premium CBA had traditionally held over its "Big Four" peers. We have reduced our underweight in CBA due to this improvement of valuation. Sector-wise, the portfolio has a slight overweight in banks as the cyclical headwind of compressed loan margins has been winding down. Our key exposure remains with ANZ due to its greater scope for cost-out and shareholder returns, while NAB is our least preferred.

QBE Insurance Group - not held

The share price of the global insurer, **QBE Insurance Group** (**QBE, -10.1%)** declined during August, following a poorly received earnings result. In particular, FY17 margin guidance was downgraded for a second time to around 9% below the previous revised target, despite reserve releases above the margin and favourable investment yields. Conditions for QBE's emerging market operation remain challenging and have caused jitters among investors. QBE is a complex business and this surprise highlights the importance of understanding the business in its totality rather than focusing on just those parts which management are highlighting at any point in time. We also remain very cautious with regard to the insurance sector in general. The market has pushed valuations to extreme levels on a combination of higher rate expectations and the belief that premium prices, revenues and margins are trending upwards. We believe that while premium prices are climbing, the scale is far less than has been the case in previous cycles, and is only just managing to keep pace with claims inflation, suggesting that the effect on margins will be far more muted than the current valuations are implying. As such, we continue to avoid holding any insurance companies in our portfolio.

Detractors

Overweight Bluescope Steel

Underwhelming reporting season results sent **Bluescope Steel's (BSL, -17.5%)** share price tumbling in August. The steel manufacturer's FY17 EBIT and underlying NPAT were both below consensus. Adding to the FY17 numbers was weak guidance from management for the current trading period, as well as the retirement of the company's CEO, Paul O'Malley. Slightly offsetting the negatives, Bluescope announced a further $150 million share buyback. The downbeat guidance was surprising given the supportive macroeconomic backdrop, with Asian steel spreads (the margin between the coking coal and iron ore input costs and the price of the steel end products) at historical highs. Management have flagged several issues which they claim are one-off, such as a spike in cheap steel imports as some anti-dumping measures expire, however there are some inconsistencies here given that Chinese exports remain lower than in previous years. The correction over the month has priced-in the expected hit to earnings and the stock is still up over 17% year to date, so this has been a strong contributor to returns. We are conducting further analysis to understand the extent of earnings headwinds and the likelihood of an improvement coinciding with deterioration in the currently supportive macro conditions.

Wesfarmers- - not held

The Consumer Staple conglomerate **Wesfarmers (WES, +7.7%)** maintained its positive momentum from July, extending the previous gains in August after its FY17 results were well received by the market. Underlying NPAT was 22% higher than the previous corresponding period, while sales were 3.7% higher. Earnings for Bunnings in Australia and New Zealand were strong, in contrast to 13% decline in Coles' full-year earnings. Management was also optimistic on the outlook for both Retail and Industrials divisions, despite the challenging domestic economic conditions. Our concerns with the sustainability of Wesfarmers' cash flow growth and a continuation of subdued headline growth for Coles lead us to continue avoiding the conglomerate. Our preference within the space is still with **Metcash (MTS, 3.8%)**, which we believe has less cyclical headwinds and a greater scope for further cost control initiatives to flow through.

Treasury Wine Estates - not held

A stronger-than-expected reporting season saw the wine maker, **Treasury Wine Estates (TWE, +20%)** stand amongst the best performers over the month. NPAT for FY17 (excluding significant items) was 35% higher over the period, while a strong EBITS (earnings before interest, tax and self-generating and regenerating assets) margin expansion across all divisions also increased the company's EBITS by 36% on the prior corresponding period. TWE boosted returns to shareholders via a $300 million share buyback which was facilitated by achieving a lower net debt/EBITDAS ratio. The outlook from management remains upbeat, targeting EBITS growth and greater EBITS margin accretion in F18, while positioning for acceleration in FY19 and beyond. The hefty valuation (around 31x P/E on one-year forward earnings) on the back of high earnings growth expectation on the stock means that TWE could de-rate swiftly should earnings disappoint to the downside. We do not believe the current rating of the company is justifiable given the underlying business fundamentals and have thus continued to avoid investing in this company.

Transurban Group - not held

Toll road operator, **Transurban Group (TCL, +6.6%),** finished the month higher after reporting a 17% increase in proportional EBITDA and a 32% lift in free cash flow, despite its FY18 dividend guidance being shy of consensus. The slight decline in bond yields in recent months has also resulted in the headwind unwinding and becoming a minor tailwind for bond-sensitive stocks like TCL. We do not hold the stock due to the company's need to raise equity to fund its West Gate Tunnel in Victoria and the bid for Sydney's WestConnex, due before the end of the year. The competitive environment for the latter presents a challenge for TCL to generate a reasonable return on the asset. We continue to prefer **Sydney Airport (SYD, +10.0%)** in this space, which has no equity capital call overhang and is likely to exceed top-line earnings expectations.

Strategy & outlook

The portfolio outperformed in August. It was a month dominated by FY17 earnings reports and our holdings which delivered decent results – such as Qantas, BHP Billiton, Caltex Australia, and Amcor – drove performance. Each provides a good demonstration that there are companies able to deliver cost control, earnings growth and strong free cash flow even in a relatively muted revenue environment. The major disappointment amongst our holdings was from Bluescope Steel, which met FY17 expectations but guided to significantly lower earnings for the first half of FY18 despite a benign operating environment. Meanwhile, Nine Entertainment and JB Hi-Fi both delivered good results but weakened on concerns over their industry structure; in Nine's case it was the announcement that US network, CBS, announced a takeover bid, while JB Hi-Fi suffered due to yet another periodic spike in concern over the 'Amazon effect' upon Australian retail.

Broadly speaking, resources again did the heavy lifting in terms of earnings growth. The market delivered 18% earnings growth for FY17, however this shrank to a more subdued 4% growth outside of the miners, with higher input costs – in terms of commodity prices and power costs – weighing on the broader market. Nevertheless, corporate Australia continues to demonstrate strong capital discipline, which is underpinning decent free cash flow. In terms of the market's free cash flow to sales measure, this has progressively expanded over the past five years to the point where it now sits at 8% for the market – well above its 4% average for the past 20 years. This in turn is supporting further debt reduction and returns of capital to shareholders.

The reporting season also demonstrated the unprecedented scale of disruption facing many of Australia's best known and most loved stocks. Government or regulatory intervention – or the threat of it – continues to weigh on Telstra, AGL and the Commonwealth Bank, while the market is beginning to countenance the possibility that the anticipated cyclical uptick for insurance companies such as Suncorp and IAG may not materialise with anything like the strength many hoped for. Meanwhile, muted consumer spending and the spectre of Amazon are asking questions of retail stocks such as Scentre Group.

That said, there are encouraging signs at a broader economic level. For the first time in five years capital expenditure has started to tick up significantly and there are signs that the hefty program of planned infrastructure projects is starting to flow through to companies, perhaps providing more opportunities within the cyclical sectors of the economy.

There is significant uncertainty within the market, but there are also opportunities. The strong performance from several of our holdings demonstrates that there are companies which are navigating the challenges, generating cash flow, and finding opportunities to deploy capital at a good rate of return. The ability to find and focus on these companies – and avoid those which are challenged – demonstrates the advantages of active management in environments such as these.

BT Wholesale Smaller Companies Fund

Market review

The Small Ordinaries Index outperformed the S&P/ASX 300 Accumulation Index by a comfortable 2% margin, finishing August with a 2.7% total return. The reporting season influenced the sector's performance, with a degree of divergence between Industrials and Resources. The Small Industrials rose by 1.69% whereas the heavy lifting was mostly done by the Small Resources with a hefty return of 7.09%. This dynamic was also evident within the large cap space, whereby the recovery in commodity prices on the back of resilient short-term momentum from China has been a key support for miners. Despite the lower return from Industrials, companies in aggregate delivered better-than-expected results. Performance bifurcation was also evident among stocks in general: 15 stocks added more than 15% over August, and the exact same number of stocks retraced more than 15%.

Looking at the sectors closely, meaningful performance detractions came from **Consumer Discretionary (-2.7%)** and **Healthcare (-6.7%)**. Returns were broadly negative within the sizeable Consumer Discretionary sector, with only a handful companies finishing the month with positive returns. **Trade Me Group (TME, -17.6%)** was the largest performance detractor within the sector. The online operator's share price dropped after reporting that cost growth had accelerated again, signalling potential risks to the company's margins. This was somewhat offset by good performance from **Breville (BRG, +10%),** where both headline growth and the earnings before interest and tax (EBIT) margin were buoyant which lifted investor sentiment towards the appliance manufacturer. Elsewhere, **Mayne Pharma (MYX, -30.2%)** declined the most amongst its Health Care peers over the month. Intensifying competition in the US generic drug sector continues to weigh on MYX's earnings, missing analyst consensus estimates for its FY17 earnings. Mayne Pharma's share price has declined more than 60% over the past 12 months and is a typical example of a market darling becoming a market short.

Turning to the other side of the tally board, strong returns stemmed from **Consumer Staples (+9.1%)**, **Materials (+6.4%)**, and **Real Estate (+5.5%)**. **Energy (+5.8%), Financials (+4.0%)** and **Industrials**

(+4.5%) also finished the month with a positive return. A couple of noteworthy reporting season results within the Consumer Staples sector include **A2 Milk (A2M, +21.7%)** and **Blackmore (BKL, +27.7%)**. A2M posted net profit after tax for FY17 that was 9% above consensus, driven by strong demand for its infant formula. The stock has returned 173% over the past 12 months, after the company reported an expansion in the sales of premium infant formula to Chinese buyers. **BKL** was the best performing stock among the ASX 200 in August, with 6% year-on-year sales growth in the fourth quarter which was ahead of market consensus. Within Materials, **Mineral Resources (MIN, +23.5%)** was the second best performing stock and the largest contributor to returns within the sector. A strong reporting reason result was again behind the stock's performance.

Finally, on macro developments, the risk appetite of global investors eased to some extent in August as several geopolitical issues resurfaced. Chief among these were the escalating tensions between North Korea and the US. The latter also contended with a fast-approaching deadline to avert a government shutdown. Earlier in the month, traders eagerly awaited speeches from global central bank chiefs at the annual Jackson Hole Symposium in the US. Ultimately though, few hints on near term policy decisions were delivered. At the same time, traders' expectations shifted towards a more dovish bias for the Fed. In turn, the market-implied probability of a December rate hike was dialled back.

Within the domestic market, the Reserve Bank of Australia once again left rates on hold at 1.5%, as widely expected. Governor Lowe retained a neutral tone in his statement, which left market expectations for future rate movements unchanged. The market is presently anticipating a full hike by November 2018. The Board continues to balance soft wage growth and broader inflation with encouraging signs of improving economic activity. Data during August echoed this issue. Quarterly wage growth data revealed a sluggish 1.9% year-on-year increase. The monthly jobs report was more constructive, with 28,000 jobs added, although this was heavily skewed to part-time positions. Beyond the labour market, business conditions and confidence gauges soared and retail sales rose by a healthy 0.3%. In contrast, consumer confidence and building approvals slipped.

Portfolio performance

The BT Wholesale Smaller Companies Fund returned 1.83% (post-fee, pre-tax) in August 2017, underperforming the S&P/ASX Small Ordinaries Accumulation Index by 0.88%.

Contributors

Overweight Mineral Resources

Mineral Resources (MIN) is a diversified mining company. It operates an iron ore crushing business, earning revenue on contracts from the major miners, as well as its own iron ore, manganese and lithium mines. It has recently become the largest producer of lithium globally. Decent commodity prices saw it deliver a strong set of results for FY17, with revenue rising by 24%, earnings (EBITDA) increasing by 70% and underlying profit rose by 110%, which were ahead of market expectations.

Overweight A2 Milk Company

The A2 Milk Company (A2M) is a dairy company selling specialised milk and milk-based products to markets in in Australia, New Zealand, UK, the US, and China. It delivered a strong set of results, with surging demand for infant formula in China helping drive a 200% gain in profit. Management announced a $40 million on-market buyback and the possibility of a special dividend.

Detractors

Overweight AP Eagers and Overweight Automotive Holdings Group

AP Eagers (APE) and Automotive Holdings Group (AHG) are auto retailers; the former is primarily based in Queensland while the latter is in Western Australia. Both have been weak at times recently on concerns over weak auto sales figures, particularly in Western Australia. We believe that this reflects the post-mining boom downturn and signs of normalisation should start to emerge. The other concern has been insurance reforms which will affect the revenue they gain from auto parts. This is now being reflected in their outlooks and is behind some of their weakness this month. We believe that the companies will work through these issues and in the interim, they should benefit from continued consolidation in the auto retail industry.

Strategy & outlook

Small caps had a solid reporting season in aggregate, driving outperformance of the large and mid-cap segments, however it was due largely to strong results from resources, with industrials far more muted. The portfolio made good gains but lagged the index. Our primary position in mining – Mineral Resources – delivered a strong set of results, while our gold miners, including Evolution Mining, also did well as the gold price gained on concerns of bellicosity on the Korean peninsula. Outside of resources, A2 Milk and salary packaging company, Smartgroup, made strong gains on good results. However, this was offset by disappointment in our auto dealership holdings, AP Eagers and Automotive Holdings Group, where there is some concerns over weakness in car sales in Western Australia and Queensland as well as some potential insurance reforms which could hit earnings. Japara Healthcare was also weak.

Small caps outperformed the large caps over the month. This reflects the unprecedented scale of uncertainty facing many blue chips. Government or regulatory intervention – or the threat of it – continues to weigh on Telstra, AGL and the Commonwealth Bank, while the market is beginning to countenance the possibility that the anticipated cyclical uptick for insurance companies such as Suncorp and IAG may not materialise with anything like the strength many hoped for. Meanwhile muted consumer spending and the spectre of Amazon are asking questions of retail stocks such as Scentre Group.

There was some divergence in fortunes within the small cap sector during the reporting season. Mining services did well as the majors started to increase capital expenditure again after a multi-year hiatus. There was also strength in China retail-related companies such as A2 Milk, Bellamy’s and Blackmores as demand showed no signs of abatement. Conversely, the potential entrance of Amazon prime continued to dog retail stocks. Retail headwinds are providing an existential issue for some companies – witness the demise of Dick Smith or smaller clothing brands, as an example. However, we also believe that this will drive opportunities. History tells us that markets are not inclined to differentiate between companies in episodes of significant sector stress. That said, observations from overseas markets suggest that there will be winners and losers in such disruptive episodes. Amazon's establishment in the US and UK has, for example, led to consolidation rather than obliteration of the existing retail industry, offering opportunities for the best run franchises. We believe the same will hold true in Australia and we will look to exploit negative sentiment around this issue.

The reporting season supported the notion that the economic environment for small caps remains patchy, outside of resources. Opportunities for strong organic growth are limited to specific pockets such as software, tourism and renewables. However, there are some positive signs emerging. Indications suggest that the hefty program of planned infrastructure projects – road, rail, and metro - are starting to flow through to companies, perhaps providing more opportunities within the cyclical sectors of the economy. At the same time, capital investment is starting to pick up across the market for the first time in five years. This is occurring at the same time that miners are no longer scaling back on investment, thereby providing a further tailwind for economic growth.

We maintain exposure to several different types of companies in the portfolio. We have a significant exposure to high quality companies with some degree of a moat when it comes to earnings; auto-parts chain, Bapcor, and industrial waste managers, Cleanaway, being cases in point. We also hold companies such as Technology One, which enjoy some sort of market leading technology. Elsewhere, we have exposure to stocks which we believe are being mis-priced on sentimental overshoots, such as Mantra Group and Japara Health care.

International Shares

BT Concentrated Global Share Fund

Market review

The Global equities sector stabilised in August following declines in the prior two months, with the MSCI World ex Australia Total Return Index returning 0.81%. Market influences were mixed, with Financials, Energy and Telecommunications sectors declining in value, while Information Technology, Materials and Utilities pushed markets higher.

US equities maintained their upward trend in August as investors largely dismissed further tensions emanating from hostilities with North Korea and the threat of a US Government shutdown if a stalemate develops on extending the country's debt ceiling. However, economic data continues to indicate further underlying economic strength, with the latest quarterly real GDP growth revised up from 2.6% to 3.0% - the strongest growth rate since Q1-2015. Unemployment also remains low at 4.3%, although weaker readings in key manufacturing surveys moderated market sentiment. The S&P500 delivered a 0.1% return whilst the Nasdaq was up 1.3%.

The performance of European equity markets was mixed, with the UK's FTSE Index up 0.8% while the German DAX (-0.5%) and the French CAC (-0.2%) indicated a degree of caution prevailing within Eurozone markets. Economic news from the region was generally positive, with the latest Eurozone GDP indicating an annual growth rate of 2.1%, while industrial production and sentiment indicators remained stable and supported a further appreciation in the euro against the US dollar.

The major Asian equity markets were generally weaker in August, in part due to escalating tensions on the Korean Peninsula and weaker economic data from China. Singapore (-1.6%), South Korea (-1.6%) and Japan (-1.4%) led the declines, however Hong Kong (+2.4%) and Taiwan (+1.5%) were notable exceptions.

The Australian dollar finished the month 0.7% lower against the US dollar and declined by 1.3% against the euro. The local unit was generally weaker against its major trading partners. However, the devastation caused by Hurricane Harvey on southern Texas halted crude oil production and placed downward pressure on the oil price as inventory levels rose, which consequently saw the Australian dollar strengthen through the latter half of the month.

Portfolio performance

The BT Concentrated Global Share Fund returned 0.55% (post fee, pre-tax) in August 2017, underperforming its benchmark by 0.26%.

Whilst global trade relations and geo-political tensions continue to grab world headlines, global gross domestic product (GDP) growth remains above trend. At the same time the most recent quarterly reporting season provided an early indication that 2017 is likely to be the first year of solid earnings growth since 2010 in Europe, whilst in the US, the earnings season has again exceeded expectations.

A high quality management team is a core criteria for our investment strategy when assessing potential investments. Given the long term investment horizon of the Fund, we want to be sure that management will steer their company in the long term interests of shareholders, rewarding them with capital returns when it is prudent to do so while also balancing those rewards with the need to grow and strengthen the company over time. To assess management's ability to do this we rely not only on past track records, but also on management's willingness to engage with shareholders and present a clear, transparent strategy that they then deliver on.

Total, the French multi-national integrated oil and gas company, is one such company. Total agreed to buy the oil and gas assets of AP Moeller Maersk (Maersk) for US$7.45 billion this month, comprising of $4.95 billion in shares and by assuming $2.5 billion of Maersk's debt. One of the determining factors for our initial investment in Total was its low cost of production, which in a low oil price environment, has protected the company's balance sheet and placed management in the enviable position of being able to consider growth options. This transaction adds approximately 5% to Total's production in 2018, with a break-even oil price of $30 a barrel. Approximately 80% of Maersk's reserves are located in the North

Sea (Denmark, Norway and the UK), which not only overlap with a number of Total assets, but also help to balance the country risk associated with Total's overall portfolio of assets, given that approximately 50% of production is located in the Middle East and Africa. In our view, this transaction illustrates a management team who are balancing the reality of a low oil price environment with sensible growth options that set the company up for long term prosperity. Maersk's current capital expenditure budget can be incorporated into the Total pre-deal capital expenditure guidance of US$15-17 billion, with management conservatively guiding on expected cost synergies of $400 million per annum. The deal is expected to be EPS accretive in low single digits from 2018 and will cement Total's position as the number two oil and gas player in the North Sea.

Another of our companies involved in deal-making this month was **Discovery Communications**. The company announced an agreement to buy its rival, Scripps Networks Interactive, for US$11.9 billion or US$90 per share, made up of US$63 in cash and US$27 in Discovery stock. As we have highlighted through prior communications, media companies are facing headwinds with consumers cancelling subscriptions and becoming more selective about the content they pay for. However, through generation of superior content over the longer term we believe media companies will go direct to the consumer in a similar manner to Netflix's approach to their original "House of Cards" content. While the share price of Discovery was down 9.7% on the news of the acquisition and its quarterly numbers pointed to a continued soft operating environment, we view this acquisition as making sense on many levels. We believe the deal will improve affiliate pricing power with distributors, achieve economies of scale in advertising and be an enhanced opportunity to launch direct-to-consumer products globally. Assuming the deal is completed by the first quarter in 2018, management have committed to cost savings of US$350 million by the end of 2019 which represents 15% of the company's cost base. Management also believe the acquisition will be at least 10% accretive to 2018 earnings. We believe this to be a conservative target. We also believe there is a significant opportunity to leverage Scripps content outside the US by broadcasting Scripps shows on current Discovery channels or by swapping existing Discovery channels for Scrips channels outside the US.

Both of these examples highlight the importance we place on identifying management that have a clear, well considered strategy to generate future growth with an acute awareness of the associated risks and how they may be mitigated. We are clear supporters of entrepreneurial acuity but steer clear of management that demonstrate ill-considered empire building exploits.

We sold our stake in **Rolls Royce** this month, which was a position we initiated in April this year. Given the long term investment horizon of the Fund, it is highly unusual for us to sell an investment within four months. The decision to sell came down to two key considerations. Firstly, when attempting to initiate the position in April, we were unable to obtain our desired position size as the share price rallied ahead of our target price. Within the short time period of ownership, the stock returned 20% for the Fund, rallying 10% post their first half earnings release in early August after management commentary guided to £1 billion in free cash flow being delivered ahead of the previously targeted timeframe of 2020. Operationally, the company are making good progress on costs and appeared to have neutralised their civil engineering losses. Whilst we are still very much believers in the capacity for significant future free cash flow generation by the company, we are prepared to be patient and wait for a better entry point to build a larger position in the Fund.

Strategy & outlook

Looking forward we believe we have entered a period in equity markets that is best suited to selective stock picking rather than broader market exposure which is ideally suited to our style. Tailwinds over the last five years that have helped propel equity markets higher have become headwinds. We have positioned our portfolio to the leading businesses in a sector that are trading below their intrinsic value. Over time and as interest rates normalise, we believe these businesses will revert to their intrinsic value. In the interim we are being paid an attractive dividend to wait. The companies we own have astute management teams and strong balance sheets in order to circumnavigate a challenging and ever changing geopolitical environment.

We prefer to know fewer stocks very well than many stocks not so well, and hence we have a concentrated portfolio of 35-55 stocks in our portfolio.

BT Wholesale Core Global Share Fund, managed by AQR

Market review

The Global equities sector stabilised in August following declines in the prior two months, with the MSCI World ex Australia Total Return Index returning 0.81%. Market influences were mixed, with Financials, Energy and Telecommunications sectors declining in value, while Information Technology, Materials and Utilities pushed markets higher.

US equities maintained their upward trend in August as investors largely dismissed further tensions emanating from hostilities with North Korea and the threat of a US Government shutdown if a stalemate develops on extending the country's debt ceiling. However, economic data continues to indicate further underlying economic strength, with the latest quarterly real GDP growth revised up from 2.6% to 3.0% - the strongest growth rate since Q1-2015. Unemployment also remains low at 4.3%, although weaker readings in key manufacturing surveys moderated market sentiment. The S&P500 delivered a 0.1% return whilst the Nasdaq was up 1.3%.

The performance of European equity markets was mixed, with the UK's FTSE Index up 0.8% while the German DAX (-0.5%) and the French CAC (-0.2%) indicated a degree of caution prevailing within Eurozone markets. Economic news from the region was generally positive, with the latest Eurozone GDP indicating an annual growth rate of 2.1%, while industrial production and sentiment indicators remained stable and supported a further appreciation in the euro against the US dollar.

The major Asian equity markets were generally weaker in August, in part due to escalating tensions on the Korean Peninsula and weaker economic data from China. Singapore (-1.6%), South Korea (-1.6%)

and Japan (-1.4%) led the declines, however Hong Kong (+2.4%) and Taiwan (+1.5%) were notable exceptions.

The Australian dollar finished the month 0.7% lower against the US dollar and declined by 1.3% against the euro. The local unit was generally weaker against its major trading partners. However, the devastation caused by Hurricane Harvey on southern Texas halted crude oil production and placed downward pressure on the oil price as inventory levels rose, which consequently saw the Australian dollar strengthen through the latter half of the month.

Portfolio performance

The BT Wholesale Core Global Share Fund returned +1.04% (post-fee, pre-tax) in August 2017, outperforming its benchmark by 0.23%.

The Fund's outperformance in August was largely sourced from North America, while developed Asia and Europe were flat relative to regional benchmarks.

The thematic drivers of active returns were similar across regions. August was a strong month for momentum themes, as measured through changes in prices and fundamentals for both industry selection and within-industry stock selection. Investor sentiment measures also performed strongly across all regions. Offsetting in each region was valuation, which performed poorly for within-industry stock selection. The bulk of the active performance was sourced from the US portfolio, where the weakness in value measures was more than offset by momentum, quality and sentiment themes.

From a stock and industry attribution perspective, roughly half the outperformance was gained through sector/industry tilts and half was sourced from stock positioning within industry groups. At a sector level, the underweight in Energy was the material contributor to performance, with other industry tilts making a minor contribution to active returns over the month. Stock selection within industry groups was most rewarded within Healthcare and Energy sectors, offset somewhat by underperformance within Financials and Industrials.

At a stock level, the strongest positive contributors came from overweight positions in: Gilead Sciences Inc., an American biopharmaceutical company; RWE AG, a German electricity utility company; and Michael Kors Holdings Limited, an American multi-national fashion brand and retailer. The largest detractors from active returns were overweight positions in Foot Locker Retail Inc., an American multinational sportswear and footwear retailer; United Continental Holdings Inc., the parent holding company of United Airlines, a major US airline; and Barclays Plc, a British multi-national bank and financial services company.

Strategy & outlook

Moving into September, the largest sector tilts are overweights in Industrials and Health Care and underweights in Consumer Staples and Energy. Relative to long-term allocations, we remain mildly tilted towards higher quality companies with positive momentum and away from cheaper industry peers in the US, while mildly tilted towards relative value considerations in Europe and Japan.

Australian Fixed Income

BT Wholesale Fixed Interest Fund

Market review

Australian bond markets again took guidance from local developments during the month as investors looked past rising global geopolitical tensions. The Reserve Bank once again left rates on hold at 1.5%, as widely expected. Governor Lowe retained a neutral tone in his statement, which left market expectations for future rate movements unchanged. The market is currently anticipating a full hike by November 2018. The Board continues to balance soft wage growth and broader inflation with encouraging signs of improving economic activity. Data during August echoed this issue. Quarterly wage growth data revealed a sluggish 1.9% year-on-year increase. The monthly jobs report was more constructive with 28,000 jobs added, although this was heavily skewed towards part-time positions. Beyond the labour market, business conditions and confidence gauges soared and retail sales rose a healthy 0.3%. In contrast, consumer confidence and building approvals slipped. Australian Government bonds responded more to the positive prints than the negatives, with yields rising across the curve. The 3-year Government Bond increased 9 basis points (bps) to 2.00%, while the 10-year maturity increased 4bps to 2.71%. The 90-day Bank Bill Swap Rate also climbed a modest 3bps to 1.72%. Finally, the Australian dollar fell 0.8% against the US dollar as a degree of risk aversion outweighed support from higher commodity prices.

Portfolio performance

The BT Wholesale Fixed Interest Fund returned 0.05% in August 2017 (post-fees, pre-tax), outperforming its benchmark by 0.06%.

Within the alpha overlay, the FX, Cross-Market and Yield Curve strategies added to performance, while the Macro strategy detracted and the Relative Value strategy had a neutral impact. The Government Bond component outperformed its benchmark, with the majority of gains from long duration positions attributed to the New Zealand front end and tactical positions in the Australian front end of the yield curve. Finally, the Credit component strongly outperformed its benchmark. Positive performance was experienced from long infrastructure and utilities paper positions.

Strategy & outlook

The Reserve Bank of Australia remained on hold at their August and September meeting. Market pricing indicates that the Reserve Bank is on hold for the remainder of the year with a bias towards monetary policy tightening over the next 12 months. Ongoing currency strength is likely to weigh further on an already subdued inflationary environment - both the weighted median and the trimmed mean remain below the Reserve Bank's 2-3% target range currently. The underemployment rate however remains elevated and is indicative of a labour market that has more than ample slack before wage inflation pressures start to rise.

Financial stability risks remain a key concern for the Reserve Bank, although recent mortgage rate increases for investor and interest only loans along with APRA's macro-prudential limits do appear to be slowing down sections of the housing market. However, this is likely to weigh on household consumption and in turn economic growth. Financial stability risks would then diminish somewhat. The Reserve Bank would be encouraged by the continuing strength in business conditions and improving global economic growth prospects. Recent escalation of geopolitical risks short term is partly offsetting this confidence.

International Fixed Income

BT Wholesale Global Fixed Interest Fund

Market review

Global investors' risk appetite eased to some extent in August as several geopolitical issues resurfaced. The dominant issue was the escalating tensions between North Korea and the US. The latter also contended with a fast-approaching deadline to avert a US Government shutdown due to the presently unresolved debt ceiling issue. Earlier in the month, traders eagerly awaited speeches from global central bank chiefs at the annual Jackson Hole Symposium in the US. Ultimately though, few hints on near term policy decisions were delivered. At the same time, traders' expectations shifted towards a more dovish bias for the US Federal Reserve (Fed). In turn, the market-implied probability of a December hike was dialled back. Against this backdrop, US Treasuries were well-bid and yields fell across the curve. The 10-year yield dropped 18 basis points (bps) to 2.12%, while the shorter-dated 2-year maturity fell 2bps to 1.33%. This weighed on the US dollar and afforded further gains for gold (+4.1%) and industrial commodities (iron ore +7.1% and Nickel +15.5%).

Portfolio performance

The BT Wholesale Global Fixed Interest Fund returned 1.06% in August 2017 (post-fees, pre-tax), marginally underperforming its benchmark by 0.07%.

Over the month the FX, Cross-Market and Yield Curve strategies added to performance, while the Duration and Macro strategies detracted and the Relative Value was largely flat. The portfolio began the month at 5 risk units, increased to 9 risk units intra-month and ended the month at 6 risk units.

The Duration strategy detracted from performance over the month. Losses were mainly from a short duration position in the long end of Europe, which was stopped out late in the month. A short US front-end position was also initiated around the same time which also detracted. The losses were mitigated by gains in long duration positions in the front end of Europe and New Zealand. Towards the end of the month we increased long duration in the front-end of New Zealand and added long duration positions in the front-ends of Europe and Japan.

The FX strategy was the best performing strategy this month. The majority of the gains were made from rising FX volatility in NZD, which benefited our put position and the long vol straddle position. Our short EUR versus NOK position continued to perform and we increased our position with the expectation of further strength in NOK. Gains were also contributed by a short GBP and long JPY position due to continued concerns over the uncertainties around Brexit negotiations and general risk off sentiment. In the EM space, our short USD against a basket of Asian currencies continued to gain on further USD weakness.

The Yield Curve strategy added to performance this month. The majority of the gains were contributed by the continuing performance from our steepeners in the JPY long end. In the US our 2y-5y steepening positions detracted from performance, however, losses were mitigated by the 1y-10y flattening position we took profits earlier in the month. During the month we added a steepening position in the Australian front end with flat performance.

The Cross-Market strategy performed strongly over the month. Our long Europe against short US positions were the strongest performers, with the European legs outperforming in both the front-end and the long-end of the yield curve. Our long Germany against short Italy position performed well in the month as Italy continued to widen against Germany.

The Macro strategy was the largest detractor over the month. Most of the underperformance was contributed by the spread decompression positions in CDX EM and iTraxx Main. We under-hedged our CDX HY versus iTraxx Main trade earlier in the month by reducing the iTraxx Main leg, as risk sentiment deteriorated, which also contributed to the losses. The full hedge was re-established later in the month. During the month we closed the Senior Fin versus Sub Fin position with flat performance.

In Relative Value strategy we increased our US 2y invoice spread position and added a US 10y swap spread position. Both positions ended the month with largely flat performance.

Strategy & outlook

Global inflation remains subdued and there are no signs that the strengthening labour market is pushing inflation higher as wage growth continues to be sluggish. On the back of the low inflation outlook, central banks have no incentives to raise interest rates any time soon. At the annual Jackson Hole Symposium, Yellen and Draghi kept their focus on the event’s themes and neither revealed much on monetary policy change in the current environment. Thus the market expects that the central banks will stick to their quantitative tapering plans. The low volatility environment has lasted for some time and the market is comfortable to chase higher yielding assets. However, we remain cautious on these assets not only because of early warning signals in a number of areas starting to show deteriorating credit quality but also because of risk sentiment swings due to geopolitical and political reasons.

Credit

BT Wholesale Enhanced Credit Fund

Market review

It was a mixed month for credit markets. The main focus during the month was around geopolitics, with North Korea being front and centre as protagonist number one. US economic data was mixed while no news from the US Federal Reserve (Fed) and European Central Bank (ECB) was essentially good news. End of month events included a hurricane and a missile test that unsettled markets. China's economic data remained solid, with manufacturing and services indices continuing to indicate positive momentum in the economy.

The second-half domestic earnings reporting season saw top line growth of 10%, compared to the prior corresponding period which saw earnings growth of 25% versus the prior corresponding period. The best performing sectors were resources and utilities, while telecommunications and health care sectors were the worst performers in terms of earnings growth.

The Australian iTraxx Index (Series 27 contract) traded in a 10 basis point (bp) range, finishing the month 6bps tighter to +71bps. Physical credit spreads were mixed, with infrastructure and utilities strengthening by 3bps and 1bp, respectively, whilst supra-nationals and offshore banks weakened 3bps and 1bp, respectively.

Portfolio performance

The BT Wholesale Enhanced Credit Fund returned 0.15% in August 2017 (post-fees, pre-tax), outperforming its benchmark by 0.05%.

Absolute performance from credit was reasonably strong, but not as significant as in July. Positive performance was experienced from long infrastructure and utilities paper.

Activity over the month involved participating in the primary issuances of Verizon, Victorian Power Networks, and SA Power Networks.

Strategy & outlook

Our macro credit view remains neutral. Whilst there continues to be the potential for significant event risk and associated volatility for the remainder of 2017 it has diminished since earlier in the year. Geo-political risks have risen with recent actions by North Korea. To-date no substantive economic policy has been produced by the new American administration which could impair a continued improvement in the US outlook. The Federal Reserve has already raised the cash rate for two of its projected three rate rises in 2017. What remains unknown is what legislation Congress and the President could enact and it's this unknown that creates some event risk.

It appears that Europe, whilst not rapidly growing, has stabilised post the French election. In addition, we expect continued monetary policy action from the ECB, which could impact risk appetite. How markets react to the next announced leg of tapering in ECBs bond purchase program, which will potentially be announced in October, will be potentially a pivotal point regarding financial market stability

Whilst the Trump administration has not accomplished anything legislatively to-date, we would not rule out the distinct possibility the Republican Party coalescing over the area of tax which could represent a meaningful change to global growth. The impact spans the spectrum of outcomes from a pick-up in growth to damaging trade wars.

Underpinning a neutral outlook is the expectations of China maintaining its balancing act of stimulus, credit easing and currency depreciation. Statements coming out of the National People's Congress appear to support a continuation of the balancing act. China's growth story underpins commodity price stability.

Accordingly whilst near term market tone is positive we remain cautious with many unknowns in the latter half of 2017. Domestically we see weak growth persisting and improvement largely dependent on commodity price stability and housing. As such we continue to recommend a defensive approach with any overweights in operationally resilient sectors such as utilities and infrastructure that provide a higher yield to index returns.

Cash

BT Wholesale Managed Cash and BT Wholesale Enhanced Cash Funds

Market review

Once again the Reserve Bank of Australia left rates on hold during the month as widely expected. A neutral tone was retained in Governor Lowe's statement, which left expectations for future rate movements unchanged. At present the market is anticipating a full hike by November 2018. The Board continues to balance soft wage growth and broader inflation with encouraging signs of improving economic activity.

Data during August echoed this issue. Quarterly wage growth figures revealed a soft 0.5% increase over the period, which brought the year-on-year rate to 1.9%, the slowest pace on record. Weakness was broad-based, but particularly anaemic for retail. Jobs data also released during the month indicated a healthy 28,000 increase in employment, but the gains were skewed to part-time positions.

Beyond the labour market, leading indicators of economic activity were relatively strong. For example, the NAB Business Conditions index rose to a 9-year high to a reading of 15. Confidence also soared by four points to +12 (the highest since 2013). Retail sales also rose a healthy 0.3%. Additionally, there were substantial lifts to capital investment expectations for the coming year, including in non-mining sectors. In contrast, consumer confidence slipped as households grew more concerned over their finances. Building approvals were also on the negative side with a modest 1.7% drop.

Outside of economic data, local investors were also offered some guidance by the full-year reporting season. In aggregate, 30% of companies exceeded consensus estimates while 28% fell short (based on JP Morgan expectations). Revenues grew by 10% compared to the prior corresponding period which drove earnings growth of 25%. The best performing sectors were Resources and Utilities, whilst Telecommunications and Health Care sectors were the worst performers in terms of earnings growth. A reduction in payout ratios was an evident theme as exemplified by Telstra's dividend cut.

From an offshore perspective, , attention was centred on the annual Jackson Hole summit of central bankers early in the month. Central bankers offered few hints at near term policy decisions, while traders' expectations shifted towards a more dovish Fed and the market-implied probability of a December hike fell. Towards the end of August, geopolitical issues resurfaced and kept risk appetite suppressed. This included antagonising from North Korea as well as another impending deadline for averting a US government shutdown.

In turn, US Treasuries were well-bid and yields fell across the curve. The 10-year yield dropped 18bps to 2.12%, while the shorter-dated 2-year maturity fell by 2bps to 1.33%. In contrast, with the improvements in local economic data, Australian Government Bond yields rose. The 3-year bond increased by 9bps to 2.00%, while the 10-year maturity increased by 4bps to 2.71%. The 90-day BBSW also climbed a modest 3bps to 1.72%. Finally, the Australian dollar fell 0.8% against the USD as a degree of risk aversion outweighed support from higher commodity prices.

Performance was more mixed in credit markets. The main focus during the month was around geopolitics with North Korea firing test missiles and President Trump warning North Korea with statements such as "these threats will be met with fire and fury".

The Australian iTraxx Index (Series 27 contract) traded in a 10bp range, finishing the month 6bps tighter to +71bps. Physical credit spreads were mixed, with infrastructure and utilities strengthening by 3 bps and 1bp, respectively, whilst supranationals and offshore banks weakened by the same respective magnitude. Semi-Government bond spreads relative to Government Bonds remained relatively unchanged over the month.

Portfolio performance

Managed Cash

The BT Wholesale Managed Cash Fund returned 0.15% in August 2017 (post-fee, pre-tax), compared to the benchmark return of 0.14%.

With a higher running yield than the Index, the Fund remains well positioned to outperform. Themes and credit exposure remain consistent with prior months, with excess spread from A-1 rated issuers and yield curve positioning likely to be the main driver of outperformance. The Fund ended the month with a weighted average maturity of 66 days (maximum limit of 70 days). Yields further along the curve continue to offer better relative value and as a result, the weighted average maturity has consistently been longer than benchmark. With longer dated yields offering better value and with RBA monetary policy tightening a distant prospect, we will remain positioned longer than benchmark and we believe the Fund is well positioned to continue to outperform.

Enhanced Cash

The BT Wholesale Enhanced Cash Fund returned 0.26% in August 2017 (post-fee, pre-tax), outperforming its benchmark by 0.08%.

Positive performance came from the Infrastructure, Industrials and Financials sectors. The portfolio has outperformed its benchmark by 1.63% over the past 12 months.

Activity during the month included investing in Utilities and Telecommunication sectors which was funded out of Commonwealth Government Bonds.

As at the end of the month, the portfolio had a credit spread of 74bps over bank bills, interest rate duration of 0.08 years and credit spread duration of 2.02 years.

Strategy & outlook

The RBA remained on hold at their August and September meeting. Market pricing indicates that the RBA is on hold for the remainder of the year with a bias towards monetary policy tightening over the next 12 months. Ongoing currency strength is likely to weigh further on an already subdued inflationary environment - both the weighted median and the trimmed mean remain below the RBA's 2-3% target range. However, wage inflation remains at low levels but should pick up in the near term, with the recent increase in the minimum wage and perhaps also with the recent stronger employment growth data. However, the underemployment rate remains elevated and is indicative of a labour market that has more than ample slack before wage inflation pressures start to rise. Inflationary concerns are certainly not an issue for the RBA at the moment.

Financial stability risks remain a key concern for the RBA, although recent mortgage rate increases for investor and interest-only loans along with APRA's macro-prudential limits do appear to be slowing sections of the housing market down. The pricing differential between interest only and principal and interest loans that has occurred recently will also incentivise mortgage holders to transition to principal and interest loans; however, this is likely to weigh on household consumption and in turn economic growth. Financial stability risks would then diminish somewhat. The RBA would be encouraged by the continuing strength in business conditions and improving global economic growth prospects. However, recent escalation of geopolitical risks is partly offsetting this confidence.

Australian Property

BT Wholesale Property Securities Fund

Market review

The S&P/ASX A-REIT Index outperformed the broader market by 0.6%, with A-REITs returning 1.3%, ahead of the broader market return of 0.7%. On a rolling one-year basis, A-REITs have declined by 7.4% and underperformed the broader market by 17.2%. The best performing A-REITs over the reporting season were concentrated within the Diversified sector; namely **Abacus Property Group** (+12%), **Iron Mountain** (+14%) and **Mirvac Group** (+7%). The worst performing securities were within the Retail sector. These included **Vicinity Centres** (-4.7%), **Charter Hall Retail** (-4.1%) and **Scentre Group** (-4%).

US GDP for the second quarter was revised up from 2.6% to 3%, the strongest growth since the first quarter of 2015. US non-farm payrolls were also strong (+209,000), with the participation rate rising +0.1% to 62.9% and the unemployment rate falling 0.1% to 4.3%. However, core CPI remained weak, with overall prices rising by just 0.1% for the last monthly reading (July 2017). As a result, the US Treasury yield curve flattened with a decline of 18 basis points (bps) and 10-year Treasuries finished the month at 2.12%.

The Reserve Bank of Australia (RBA) held rates steady in August. Construction work rose 9.3% over the period and retail sales were up 0.3% for the month and up 1.5% over the quarter. The NAB Business Survey continued to indicate signs of strength with the last reading rising from +8 to +12. Employment growth was also solid, with over 27,000 new roles, and the unemployment rate fell from 5.7% to 5.6%. Despite the positive macro data, wages growth for the recent quarter remained sluggish at an annual rate of +1.9%, the lowest rate on record.

The reporting season was mixed, although asset prices continue to rise across the board, with net tangible assets (NTA) increasing by 8% and cap rates compressing by 35bps to an average of 6%. Earnings per share (EPS) growth was 4.5%, with the best growth coming from the residential REITs. Mirvac (+11%) and Stockland (+7.2%) were strong performers among the group and provided favourable guidance on FY18 earnings expectations (+6.8% for Mirvac and 5-6.5% for Stockland). Retail sales growth continues to struggle and this has largely been reflected in lower leasing spreads and lower comparable net property income growth. While Sydney and Melbourne office markets are strong, this has not yet translated to earnings growth for the office REITs.

Portfolio performance

The BT Wholesale Property Securities Fund returned 1.59% in August 2017 (post-fee, pre-tax), outperforming its benchmark by 0.08%.

The portfolio outperformed the benchmark over the month. Overweight positions in **Mirvac Group**, **Arena REIT** and **Aveo Group**, and underweight positions in **Vicinity Centres** and **Charter Hall Retail REIT** assisted performance. Underweight positions in **Iron Mountain Inc**, **Abacus Property Group**, **Goodman Group** and **Astro Japan Trust** detracted from performance.

Over the month we increased our overweight position in GPT Group, funded by reducing our overweight position in Scentre Group.

Strategy & outlook

The sector is now priced on an FY18 dividend yield of 5.2%, a price-earnings ratio of 16.1 times and a 17% premium to NTA. While this is still some way ahead of its long term average, A-REIT valuations still lag the physical market and there is still some catch-up in NTA. Balance sheets are stable, with aggregate gearing for the sector at 28% and falling slowly as asset prices continue to rise.

International Property

BT Wholesale Global Property Securities Fund, managed by AEW

Market Review (In USD)

The global property securities market (on an ex-Australia basis) as measured by the FTSE EPRA/NAREIT Developed Index continued to climb in August, posting a total return of 0.2%. Europe (+1.3%) was the strongest performing region, followed by Asia Pacific (+0.8%), while North America (-0.4%) was a negative performer. In Asia Pacific, results were mixed across the region. Hong Kong (+4.8%) posted the highest return, followed by Singapore (+1.9%), while Japan (-2.4%) and New Zealand (-5.9%) were negative performers. Results in Europe were largely positive. Austria (+7.1%) posted the largest gain, followed by Norway (+6.2%) and Italy (+6.1%). Within North America, the US and Canada returned -0.4% and 1.0%, respectively.

Portfolio performance

The BT Wholesale Global Property Securities Fund returned 0.32% in August 2017 (post-fee, pre-tax) outperforming the benchmark return by 0.09%.

North America

The North America portfolio returned -0.12% in August before fees, outperforming the FTSE EPRA/NAREIT North America Index by 24 basis points (bps). Outperformance relative to the benchmark was attributable to positive stock selection results and, to a lesser extent, positive sector allocation results. In terms of stock selection, results were strongest in the health care, industrial, and diversified sectors and were weakest in the apartment, other residential, and shopping centre sectors. Regarding sector allocation, modest positive results were driven by the portfolio's overweight to the outperforming data centre and industrial sectors. Conversely, the portfolio's underweight to the outperforming triple net lease sector was a detractor to relative performance. Among the portfolio's holdings, top individual contributors to relative performance included overweight positions in outperforming **Rexford Industrial Realty** (REXR) and **Prologis** (PLD), and a lack of exposure to the underperforming **GGP Inc.** (GGP). The most notable detractors included overweight positions in the underperforming **Penn REIT** (PEI) and **Taubman Centers** (TCO), and a lack of exposure to the outperforming **Duke Realty** (DRE).

Europe

The European portfolio returned 1.85% in August before fees, exceeding the regional EPRA benchmark by 62bps. Outperformance relative to the benchmark was driven by positive stock selection results and, to a lesser extent, positive country allocation results. In terms of stock selection, results were strongest in Germany, the United Kingdom, and Netherlands and were weakest in Sweden, Austria, and Spain. Regarding country allocation, positive results were attributable to the portfolio's overweight to the outperforming Norway and an underweight to the underperforming Switzerland market. Among the portfolio's holdings, top contributors to relative performance included overweight positions in the outperforming **Entra ASA** (Norway) and **Gecina SA** (France), and a lack of exposure to the underperforming **Capital and Counties Properties PLC** (United Kingdom). Detractors most notably included overweight positions in the underperforming **Workspace Group PLC** (United Kingdom) and **British Land Co. Plc** (United Kingdom), and a lack of exposure to the outperforming **CA Immobilien Anlagen AG** (Austria).

Asia

The Asia portfolio returned 0.64% in August before fees, lagging the regional EPRA benchmark by 20bps. Underperformance relative to the benchmark was attributable to negative stock selection results, while country allocation results were neutral. In terms of stock selection, negative results in Japan and Singapore were partially offset by positive results in Hong Kong. Among the portfolio's holdings, top contributors to relative performance included overweight positions in the outperforming **Henderson Land Development** (Hong Kong), **Wharf Holdings** (Hong Kong), and **City Developments** (Singapore). Detractors most notably included overweight positions in the underperforming **Tokyo Tatemono** (Japan) and **Hulic Co. Ltd.** (Japan), and a lack of exposure to the outperforming **CapitaLand Mall Trust** (Singapore).

Active Balanced

BT Wholesale Active Balanced Fund

Market review

Australian shares traded sideways again over the month of August, achieving a marginal gain of 0.7% as represented by the S&P/ASX 300 Accumulation Index. Gains were led by the Materials (+4.5%) sector, while only three of the 11 GICS sectors - Financials (-2.1%), Consumer Discretionary (-1.5%) and Telecoms (-7.2%) posting negative returns.

The market was influenced by a set of mixed results from the corporate reporting season. Corporate earnings were strong from the Resources sector, whereas Industrials profit growth remained subdued at 4% due to a combination of weak headline growth and rising input costs. Free cash flow remained favourable while improvements in dividend payout ratios and company balance sheets were also evident. At a stock level, the major miners supported the market, with favourable returns from key iron ore players, BHP (+5.9%), Rio Tinto (+5.3%) and Fortescue Metals (+4.7%). Partially offsetting their contribution was weakness within Commonwealth Bank (-6.9%), after the index heavyweight lost ground following news of the bank's potential violation of anti-money laundering practices which has the potential to result in severe infringements.

Global equities stabilised in August following declines in the prior two months, with the MSCI World ex Australia Total Return Index returning 0.81%. Market influences were mixed, with Financials, Energy and Telecommunications sectors declining in value, while Information Technology, Materials and Utilities pushed markets higher.

US equities maintained their upward trend in August as investors largely dismissed further tensions emanating from hostilities with North Korea and the threat of a US Government shutdown if a stalemate develops on extending the country's debt ceiling. However, economic data continues to indicate further underlying economic strength. Unemployment also remains low at 4.3%, although weaker readings in key manufacturing surveys moderated market sentiment. The S&P500 delivered a 0.1% return whilst the Nasdaq was up 1.3%.

European equity market performance was mixed, with the UK's FTSE Index up 0.8% while the German DAX (-0.5%) and the French CAC (-0.2%) indicated a degree of caution prevailing within Eurozone markets. Economic news from the region was generally positive, while industrial production and sentiment indicators remained stable and supported a further appreciation in the euro against the US dollar.

Asian equity markets were generally weaker in August, in part due to escalating tensions on the Korean Peninsula and weaker economic data from China. Singapore (-1.6%), South Korea (-1.6%) and Japan (-1.4%) led the declines, however Hong Kong (+2.4%) and Taiwan (+1.5%) were notable exceptions.

The Australian dollar finished the month 0.7% lower against the US dollar and declined by 1.3% against the euro. The local unit was generally weaker against its major trading partners. However, the devastation caused by Hurricane Harvey on southern Texas halted crude oil production which consequently saw the Australian dollar strengthen through the latter half of the month.

Australian Government bonds responded more to the positive prints than the negatives, with yields rising across the curve. The 3-year Government Bond increased 9 basis points (bps) to 2.00%, while the 10-year maturity increased 4bps to 2.71%.

US Treasuries were well-bid and yields fell across the curve. The 10-year yield dropped 18 bps to 2.12%, while the shorter-dated 2-year maturity fell by 2bps to 1.33%. This weighed on the US dollar and afforded further gains for gold (+4.1%) and industrial commodities (iron ore +7.1% and Nickel +15.5%).

Portfolio performance

The BT Wholesale Active Balanced Fund returned 0.87% (post-fee, pre-tax) in August 2017, outperforming its benchmark by 0.21%.

The positive absolute return was driven primarily by its allocation to growth assets and alternatives. Our active return was driven by underlying manager outperformance vs their index.

The Fund's tactical asset allocation strategy delivered a broadly neutral impact relative to the asset-weighted benchmark and the Fund benefited from the capital appreciation from Australian and overseas shares.

A key driver of active performance was our Australian equity strategy, which outperformed the Index by 0.19%. The portfolio benefitted from our overweight exposure to key stocks that outperformed during the reporting season including Qantas and Caltex, as well as underweight exposures to Commonwealth Bank and QBE Insurance Group.

Our Global equities exposure outperformed as well, driven by a contribution from our overweight position in the US, while exposure to Europe and emerging markets resulted in a neutral impact on returns.

Our alternatives strategy also contributed to active and total returns, delivering a return of 1.16% compared with a cash return of 0.14%. Our Risk Parity strategy significantly contributed to returns, while the marginal contribution from our Pure Alpha Fixed Income was offset by detraction from the defensive equity income strategy. Additionally, each of our multi strategy, market neutral, global macro and managed futures strategies contributed positively to returns.

Our tactical asset allocation strategy delivered a marginal detraction 0.02%. The Fund's overweight positions in Australian equities, US equities and our long copper trade contributed, whilst a short position in Australian bonds and Gold detracted from performance.

Strategy and Outlook

Investor attention is likely to remain on comments and actions from the major central banks, including those of our own Reserve Bank of Australia (RBA). While there is general consensus on the trajectory of future cash rates, considerable uncertainty remains over the timing of future moves and the theoretical capacity of economies to absorb higher interest rates given the potency of government and household debt globally. In the short to medium term, it is reasonable to expect any tightening of monetary policy to be measured, which bodes well for growth assets to remain supported.

The Australian dollar's recent strength is also a point of interest, given the backdrop of a partial recovery in key commodity prices and the relative yield in Australia. Indications on demand for key commodities from China moving forward suggest a degree of support for the Australian dollar. Further strength in the local currency will complicate the RBA's agenda for normalisation of interest rates and impact on export earnings.

Geo-political issues associated with North Korea's nuclear ambitions present an increasing degree of uncertainty for capital markets which may heighten short term risk assessments. Any material escalation in tensions and implementation of economic sanctions that match the Trump rhetoric also have the potential to derail momentum in the US economic recovery. These are areas that cannot be controlled from an investment perspective but warrant a degree of caution.

Beyond shorter term considerations, the Fund continues to be managed in line with its longer term objectives of managing an active asset allocation strategy to promote stable growth and preserve capital.

Performance as at 31 August 2017

(%)	1 Month	3 Months	6 Months	FYTD	1 year (pa)	2 Years (pa)	3 Years (pa)	5 Years (pa)	Since Incp. (pa)
Australian Shares - All Cap									
BT Wholesale Core Australian Share Fund									APIR - RFA0818AU
Total Return (post-fee, pre-tax)	0.89	3.13	5.02	1.48	12.91	8.85	5.92	11.30	9.90
Total Return (pre-fee, pre-tax)	0.96	3.34	5.44	1.62	13.80	9.70	6.76	12.18	10.90
Benchmark	0.75	0.99	2.43	0.76	9.54	9.62	5.16	10.41	9.86
BT Wholesale Imputation Fund									APIR - RFA0103AU
Total Return (post-fee, pre-tax)	0.36	1.60	3.09	0.56	11.66	7.45	4.27	9.29	9.39
Total Return (pre-fee, pre-tax)	0.44	1.83	3.55	0.71	12.66	8.41	5.21	10.28	10.41
Benchmark	0.75	0.99	2.43	0.76	9.54	9.62	5.16	10.41	8.54
BT Wholesale Focus Australian Share Fund									APIR - RFA0059AU
Total Return (post-fee, pre-tax)	0.96	3.82	6.42	1.50	15.32	11.28	8.15	13.16	9.06
Total Return (pre-fee, pre-tax)	1.10	4.56	7.59	1.77	17.07	12.47	9.34	14.25	10.17
Benchmark	0.75	0.99	2.43	0.76	9.54	9.62	5.16	10.41	7.20
BT Wholesale Ethical Share Fund									APIR - RFA0025AU
Total Return (post-fee, pre-tax)	0.73	3.25	4.94	1.45	12.94	9.03	6.55	11.27	8.40
Total Return (pre-fee, pre-tax)	0.81	3.50	5.44	1.62	14.01	10.07	7.56	12.33	9.46
Benchmark	0.75	0.99	2.43	0.76	9.54	9.62	5.16	10.41	7.87
Australian Shares - Mid Cap									
BT Wholesale MidCap Fund									APIR - BTA0313AU
Total Return (post-fee, pre-tax)	2.23	6.67	8.96	2.58	9.83	16.20	13.07	16.03	10.03
Total Return (pre-fee, pre-tax)	2.44	7.05	9.59	2.87	10.96	17.30	14.45	17.70	12.31
Benchmark	1.66	2.54	7.10	0.56	7.50	16.51	11.35	13.74	5.01
Australian Shares - Small Cap									
BT Wholesale Smaller Companies Fund									APIR - RFA0819AU
Total Return (post-fee, pre-tax)	1.83	6.52	6.18	3.15	2.23	11.16	7.72	11.37	13.04
Total Return (pre-fee, pre-tax)	1.94	6.85	6.84	3.36	3.50	12.55	9.06	12.76	14.32
Benchmark	2.71	5.12	5.44	3.06	3.20	14.28	5.68	5.72	7.46
Australian Shares - Micro Cap									
BT Wholesale MicroCap Opportunities Fund									APIR - RFA0061AU
Total Return (post-fee, pre-tax)	2.11	6.06	7.67	3.86	7.81	19.36	16.93	20.38	18.54
Total Return (pre-fee, pre-tax)	2.22	6.79	9.10	4.47	10.52	22.07	21.26	25.74	24.05
Benchmark	2.71	5.12	5.44	3.06	3.20	14.28	5.68	5.72	2.19
International Shares									
BT Wholesale Core Global Share Fund									APIR - RFA0821AU
Total Return (post-fee, pre-tax)	1.04	-2.79	5.48	-0.06	11.93	4.20	11.70	17.37	5.56
Total Return (pre-fee, pre-tax)	1.12	-2.57	5.98	0.10	12.99	5.19	12.77	18.50	6.73
Benchmark	0.81	-3.49	4.58	-0.88	10.07	5.16	12.13	17.36	7.01
BT Global Emerging Markets Opportunities Fund - Wholesale									APIR - BTA0419AU
Total Return (post-fee, pre-tax)	2.61	2.26	16.31	3.39	16.34	11.03	10.06	N/A	11.50
Total Return (pre-fee, pre-tax)	2.73	2.62	17.13	3.63	17.96	12.58	11.77	14.16	13.81
Benchmark	2.90	2.70	14.41	4.76	18.00	11.57	8.16	11.02	10.88
BT Concentrated Global Share Fund									APIR - BTA0503AU
Total Return (post-fee, pre-tax)	0.55	-3.32	7.18	-0.59	12.17	N/A	N/A	N/A	12.72
Total Return (pre-fee, pre-tax)	0.65	-3.01	7.85	-0.39	13.56	N/A	N/A	N/A	14.13
Benchmark	0.81	-3.49	4.58	-0.88	10.07	N/A	N/A	N/A	10.59
Property									
BT Wholesale Property Securities Fund									APIR - BTA0061AU
Total Return (post-fee, pre-tax)	1.59	-3.46	-1.36	1.00	-6.69	8.32	10.12	12.82	7.34
Total Return (pre-fee, pre-tax)	1.64	-3.30	-1.03	1.11	-6.07	9.02	10.83	13.54	8.16
Benchmark	1.51	-3.21	-1.04	1.36	-6.73	8.39	10.31	13.35	7.20
BT Wholesale Global Property Securities Fund									APIR - RFA0051AU
Total Return (post-fee, pre-tax)	0.32	2.63	2.46	1.37	1.74	8.20	6.96	10.10	9.44
Total Return (pre-fee, pre-tax)	0.40	2.87	2.95	1.54	2.68	9.20	7.96	11.12	10.44
Benchmark	0.23	2.03	1.95	1.17	1.38	8.73	7.28	10.47	9.17
Fixed Interest									
BT Wholesale Fixed Interest Fund									APIR - RFA0813AU
Total Return (post-fee, pre-tax)	0.05	-0.72	1.77	0.30	-1.54	1.31	3.42	3.72	6.50
Total Return (pre-fee, pre-tax)	0.09	-0.59	2.02	0.39	-1.04	1.82	3.94	4.23	7.06
Benchmark	-0.01	-0.66	1.70	0.24	-0.66	2.71	3.89	4.16	6.72
BT Wholesale Global Fixed Interest Fund									APIR - RFA0032AU
Total Return (post-fee, pre-tax)	1.06	0.87	2.16	1.32	-1.18	2.88	4.29	4.54	6.28
Total Return (pre-fee, pre-tax)	1.10	1.00	2.43	1.41	-0.66	3.43	4.84	5.10	6.87
Benchmark	1.13	1.05	2.35	1.36	-0.18	4.64	4.93	5.25	7.20
BT Wholesale Enhanced Credit Fund									APIR - RFA0100AU
Total Return (post-fee, pre-tax)	0.15	0.04	2.14	0.65	1.63	3.24	4.04	4.78	5.83
Total Return (pre-fee, pre-tax)	0.19	0.15	2.38	0.72	2.09	3.71	4.51	5.26	6.35
Benchmark	0.10	0.00	2.16	0.59	1.50	3.31	4.10	4.71	5.94
Cash & Income									
BT Wholesale Enhanced Cash Fund									APIR - WFS0377AU
Total Return (post-fee, pre-tax)	0.26	0.87	1.62	0.58	3.14	2.73	2.74	3.27	5.00
Total Return (pre-fee, pre-tax)	0.28	0.94	1.75	0.62	3.39	2.98	3.00	3.53	5.35
Benchmark	0.14	0.43	0.88	0.29	1.76	1.99	2.16	2.46	4.97
BT Wholesale Managed Cash Fund									APIR - WFS0245AU
Total Return (post-fee, pre-tax)	0.15	0.44	0.89	0.30	1.82	2.01	2.15	2.44	6.55
Total Return (pre-fee, pre-tax)	0.17	0.49	1.01	0.33	2.05	2.23	2.38	2.66	6.85
Benchmark	0.14	0.43	0.88	0.29	1.76	1.99	2.16	2.46	6.63
BT Wholesale Monthly Income Plus Fund									APIR - BTA0318AU
Total Return (post-fee, pre-tax)	0.31	0.76	2.41	0.88	2.23	3.58	4.02	5.02	5.55
Total Return (pre-fee, pre-tax)	0.37	0.93	2.74	0.99	2.89	4.26	4.70	5.70	6.21
Benchmark	0.13	0.38	0.76	0.26	1.51	1.72	1.91	2.26	3.04
Diversified									
BT Wholesale Active Balanced Fund									APIR - RFA0815AU
Total Return (post-fee, pre-tax)	0.87	0.84	3.93	1.08	7.54	6.11	6.73	9.59	7.62
Total Return (pre-fee, pre-tax)	0.95	1.08	4.41	1.25	8.54	7.12	7.75	10.63	8.70
Benchmark	0.66	-0.18	2.71	0.54	6.15	6.95	6.44	9.23	7.43

Performance data (post-fee) assumes reinvestment of distributions and is calculated using exit prices, net of management costs. Performance data (pre-fee) is calculated by adding back management costs to the (post-fee) performance. Past performance is not a reliable indicator of future performance. The term 'benchmark' refers to the index or measurements used by an investment manager to assess the relative risk and the performance of an investment portfolio.

BTIM is the issuer of the following products:

- *BT Wholesale Core Australian Share Fund ARSN 089 935 964*
- *BT Wholesale Smaller Companies Fund ARSN 089 939 328*
- *BT Concentrated Global Share Fund ARSN 613 608 085*
- *BT Wholesale Core Global Share Fund# ARSN 089 938 492*
- *BT Wholesale Global Fixed Interest Fund ARSN 099 567 558*
- *BT Wholesale Enhanced Credit Fund ARSN 089 937 815*
- *BT Wholesale Fixed Interest Fund ARSN 089 939 542*
- *BT Wholesale Property Investment Fund ARSN 089 939 819*
- *BT Wholesale Global Property Securities Fund ARSN 108 227 005*
- *BT Wholesale Managed Cash Fund ARSN 088 832 491*
- *BT Wholesale Enhanced Cash Fund ARSN 088 863 469*
- *BT Wholesale Active Balanced Fund ARSN 088 251 496*

A product disclosure statement (PDS) is available for each of the above products and can be obtained by contacting BTIM on 1800 813 886, or by visiting btim.com.au. You should consider the relevant PDS in deciding whether to acquire, or to continue to hold, the product.

 # AQR began managing international equity for BT Financial Group in June 2006.

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